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00:01 (BST) July 20th 2023

IPA Bellwether Report – 2023 Q2

Overall UK marketing budget growth sustained in Q2, fuelled by significant upward revisions to sale promotions

Key points:

- Total marketing budgets grow solidly in Q2 as businesses stay focused on protecting their brands through a challenging economic climate
- Survey-record rise in sales promotions budgets signals behaviour by businesses to support consumers through cost-of-living crisis
- Firms turn less upbeat on company-own financial prospects, while industry-wide confidence deteriorates further
- Rising interest rates and stubbornly-high inflation set to weigh on economy and adspend in 2024

According to the latest Bellwether survey, total marketing budgets were revised higher during the second quarter of 2023, continuing the positive trend that began two years ago. However, spending weakened slightly as persistent inflationary pressures, ongoing interest rate hikes and an uncertain economic outlook led some companies to retrench.

Just over a fifth of survey respondents observed growth in total marketing spend during the second quarter, more than the 14.4% who registered budget cuts and yielding a modestly positive net balance of +6.4%. While the latest reading signalled a slight softening in budget growth since the beginning of the year (net balance of +8.2% in Q1), it represented some resilience to UK marketing spending given the increasing challenges faced by companies, including still-high inflation, rising competitive pressures and soaring interest rates. Notably, the second quarter's performance for marketing budgets compared positively to the latter half of 2022 when fears of a recession were at their most elevated.

Data split by the different marketing categories monitored by the Bellwether survey displayed mixed trends, with three out of seven registering budget growth. The top performing segment was sales promotions, where the net balance of firms recording budget expansion rose to +13.4% (up from +8.8%). Notably, the uplift in spending in this area was the most pronounced in over two decades of survey data, indicating that firms were supporting their customers through the cost-of-living crisis. A solid budget expansion was also registered for events (net balance of +9.8% from +6.3%) reflecting the continued appetite for face-to-face meeting and engagements in person. The final area to record spending growth was direct marketing, where the expansion was the sharpest since the third quarter of 2006 (net balance of +7.3% from +4.2%).

The remaining segments all saw their budgets scaled back, led by other marketing activity not accounted for (net balance of -6.8%, from -5.8%). The cut to PR budgets was sharper than previously (net balance of -1.9% from -0.6%) but the decline in market research softened (net balance of -2.9% from -3.2%). A notable finding from the survey was for the main media segment as marketing budgets here fell for the first time since the third quarter of 2022. The drop in main media and rise in sales promotions spending suggesting a reactive change by UK businesses in response to the economic climate. Within the main media category, other online (net balance of +8.3, from 10.5%), and video (+3.2%, from +7.9) remained in growth territory, although this was offset by audio (-8.0%, from +1.7%), out of home (-7.1%, from -12.4%) and published brands (-5.0%, from -1.9%).

Chart 1: Revisions to total marketing budgets

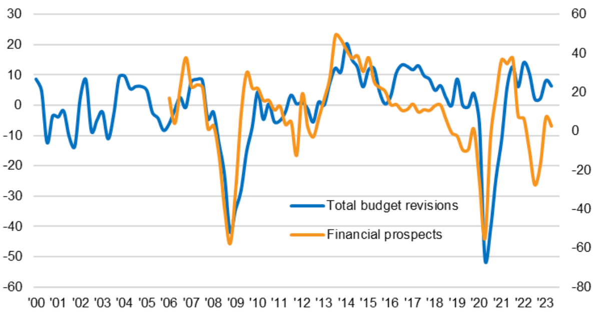
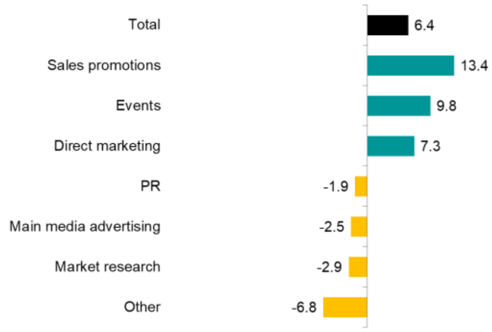


Chart 2: Analysis of marketing budgets in Q2 2023



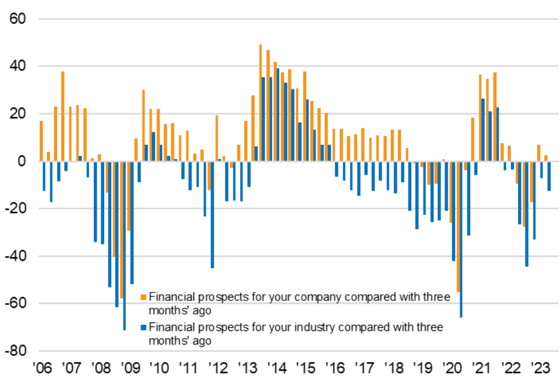
Pessimism towards industry-wide financial prospects deepens and company-own projections weakens

Latest Bellwether data reflected a more sombre mood amongst UK companies with regards to their financial prospects in Q2 as further rises in interest rates and stubbornly-high inflation weigh on firms' finances.

Sentiment towards industry-wide financial prospects moved deeper into negative territory. The 28.8% of survey respondents expressing a downbeat assessment for their industry in the coming 12 months more than offset the 16.2% who registered optimism. The subsequent net balance of -12.6% was down from -7.1% previously, but was much higher than those recorded throughout the majority of 2022 when the net balance reached deeply negative levels.

Meanwhile, sentiment towards own-company financial prospects edged closer to neutrality during the second quarter of the year. This was highlighted by the net balance of firms who were optimistic in their outlook slipping to +2.6%, down from +7.0% in the opening quarter. Underlying data revealed that just under half of survey respondents (48.4%) reported no-change in their outlook. The remaining proportion was broadly split between optimists (27.1%) and pessimists (24.5%).

Chart 2: Marketing executives' business confidence



Adspend recovery set to gather pace in 2025 following subdued forecasts for 2023 and 2024

Since the latest Bellwether survey, we've upgraded our forecast for the UK economy and expect GDP in 2023 to grow by 0.3%. The less gloomy outlook reflects the surprising resilience of consumers throughout a period of double-digit inflation and rising borrowing costs. Still, the immediate growth outlook remains challenging, particularly with the Bank of England set to raise interest rates by even further to tackle an inflation rate which stands well above the 2% target. Overall for 2023, we foresee adspend declining marginally by -0.6% (compared to -0.9% previously).

Looking onwards to 2024, we expect adpsend to be broadly flat on an annual basis, with growth forecast at 0.1% as the effect of higher interest rates starts to weigh on household and business budgets. We expect UK GDP to rise by just 0.4% next year, although for 2025 onwards we anticipate a return to much stronger rates of growth in the UK economy and adspend. We anticipate adspend growth to improve to 1.5%, 2.0% and 2.1% in 2025, 2026 and 2027 respectively.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"It is welcome news that total UK marketing budgets remain in positive territory, despite the latest figures from the ONS which reveal a 'listless' UK economy.

"It is therefore not surprising to see a dramatic increase in sales promotion this quarter. But we would not want to see this as a long-term trend because our comprehensive bank of evidence shows that price promotions damage brands because they lower consumer price references and do not build brand loyalty. While, understandably, brands may think this is the right thing to do for their customers during the current cost-of-living crisis, it is a counter-productive exercise that may generate short-term spikes in sales volumes but will almost never change how consumers think or feel about their brand because they are only interested in the lowest price point. What happens next is the eventual erosion of a company's long-term brand health and profitability. We continue to advocate the well-tested rule of thumb that a 60:40 ratio of brand building to sales activation is the best way to grow business through marketing activity."

Laura Denman, Economist at S&P Global Market Intelligence and author of the *Bellwether* Report:

"Bellwether survey data highlights the resilience of UK businesses, who appear to have weathered a challenging economic landscape over the past six months a lot better than many had anticipated. Surveyed companies continued to expand their marketing budgets in the second quarter despite still-severe inflationary pressures and continued interest rate hikes. We're seeing evidence that UK companies are proactive in their decision-making, and are adapting to the competitive business environment and challenging economic landscape in a robust manner. This bodes well for more stronger-than-expected results in the second half of 2023."

For additional information, please purchase the full report which also has content detailing threats and opportunities facing marketers and their companies over the coming 12 months. The report also includes charts comparing business confidence amongst survey panellists to wider economic output, which depicts how views on financial prospects are a function of the current business environment.

A downloadable PDF for Q2 2023 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at https://ipa.co.uk

***Annual subscription is also available by contacting* economics@ihsmarkit.com**

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About the *Bellwether*

The *Bellwether* is based on a questionnaire survey of around 300 UK-based companies that provide regular quarterly information on trends in their marketing activities. The survey panel has been carefully selected to ensure that the survey data provide an accurate indication of actual marketing trends in the whole economy. Participating companies therefore include a broad variety of advertisers in terms of market sector and geographical location. Respondents are primarily marketing directors or similar.

Questionnaires are dispatched to companies in the final three weeks of each calendar quarter, requesting information relating to two key issues:

(a) whether their marketing budgets for the year (either calendar or financial year) have been set higher, lower or the same as the actual expenditure outcome for the previous year.

(b) whether their original budgets for the current year – as reflected in their original answers to (a) above – have been revised since they were first set.

The financial prospects data are based on responses from the *Bellwether* survey panel of marketing professionals at 300 UK firms. The question asked each quarter is as follows: “Taking all things into consideration, do you feel more or less optimistic about the financial prospects for (a) your company, and (b) your industry as a whole, than you did three months ago?”

About the Institute of Practitioners in Advertising

The IPA is the industry body and professional institute for leading UK advertising, media planning and buying, and marketing communication agencies. It provides a full range of services to its members: from advice (legal, sector and management), awards and events, best practice, information, research studies and training as part of an extensive CPD programme. It is also the agency industry spokesman.

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